

TOWN OF LA CONNER
Skagit County, Washington
January 1, 1993 Through December 31, 1994

Schedule Of Findings

1. The Town Should Improve Controls Over Cash To Avoid Deficit Cash Balances

Our audit revealed numerous instances in which fund cash balances were negative at month end and one instance in which a fund's investment balance was negative at month end. We noted similar occurrences in our previous audit and discussed them with management at that time.

Since deficit balances are covered by cash in other funds, these transactions actually represent unauthorized interfund loans. As a result, certain funds are benefiting from the financial resources of other funds. Because the deficit balances have not been recognized as interfund loans, the town council has not been authorizing them as such.

RCW 43.09.210 states in part:

All services rendered by, or property transferred from, one department . . . shall be paid for at its true and full value . . . and no department . . . shall benefit in any financial manner whatever by an appropriation or fund made for the support of another.

RCW 35.33.101 states in part:

If, at any time, there is insufficient money on hand in a fund with which to pay such warrants as presented, the warrants shall be registered, bear interest and be called in the same manner as other registered warrants

Guidelines for interfund loans are included in the *Budgeting, Accounting, and Reporting System* (BARS) manual prescribed by the State Auditor's Office pursuant to RCW 43.09.200, which states in Volume I, Part 3, Chapter 4, page 1 in part:

The legislative body of a municipality must, by ordinance or resolution, approve all interfund loans, and provide in the authorization a planned schedule of repayment of the loan payment of the loan principal as well as setting a reasonable rate of interest . . . to be paid to the lending fund.

The negative balances appear to have occurred because cash balances are not being closely monitored before investments are purchased or disbursements are made.

We recommend the city develop and implement a system of controls to prevent expenditures in excess of cash available in the funds. We further recommend that should a fund not have an adequate cash balance to cover its obligations, the town issue registered

warrants or the town council approve interfund loans.